



HF 672 – Wind Production Tax Credits (LSB 2705HZ.1)

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Fiscal Note Version – As passed by the House

Description

House File 672, as passed by the House, relates to Iowa's wind energy production tax incentives. The Bill:

- Reduces the total capacity limit on projects approved for the 1.0 cent per kilowatt-hour tax credit under Chapter 476B from 150 megawatts to 26 megawatts.
- Increases the total current capacity limit on projects approved for the 1.5 cents per kilowatt-hour wind energy production tax credit (Iowa Code Chapter 476C) from 330 megawatts to 363 megawatts.
- Increases the maximum energy production capacity for energy conversion facilities other than wind from 20 megawatts to 69 megawatts. These types of projects are also allowed a 1.5 cents per kilowatt-hour production tax credit.
- Reserves 16 megawatts of the non-wind energy conversion facility 69 megawatts for projects associated with an ethanol cogeneration plant.
- Extends the date by which facilities qualifying under Chapter 476C must be placed in service by three years, to January 1, 2015.
- Alters project completion deadlines for approved projects.

The Bill is effective July 1, 2011.

Background

The 1.0 cent per kilowatt-hour tax credit under Chapter 476B was created in Senate File 2298 (Appropriations and Miscellaneous Changes Act of 2004) and the 1.5 cents per kilowatt-hour tax credit found in Chapter 476C was created in Senate File 390 (Renewable Energy Tax Credits Act of 2005).

Chapter 476B is available for projects with a capacity of 2 megawatts or more. Projects are no longer required to forgo existing property and sales tax benefits (see Code Sections 427B.26 and 423.3(54)) to receive the 1.0 cent production tax credit. Owners are limited to no more than two qualified projects. The total capacity of all approved projects cannot exceed 150 megawatts. A project must be placed in service before July 1, 2012, to qualify for the income tax credit. Through March 1, 2011, a total of 25.5 megawatts of capacity has been approved for 476B participation.

Chapter 476C is designed for smaller projects. Projects are not required to forgo other property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. The total capacity of all approved projects cannot exceed 330 megawatts. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 330 megawatt limit by 45 megawatts.

Chapter 476C also allows up to 20 megawatts of other types of energy production facilities. Projects are not required to forgo other property and sales tax benefits and the production tax

credit is equal to 1.5 cents per kilowatt-hour. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 20 megawatt limit by 2.4 megawatts.

The Utilities Board of the Department of Commerce administers both programs and the Department of Revenue administers the tax credits.

Assumptions

Chapter 476B: Chapter 476B project participation will not exceed 26 megawatts prior to the existing deadline (July 1, 2012). Therefore, reducing the current 150 megawatt program limit to 26 megawatts will not reduce tax credit redemptions and will not result in a reduction in tax credit redemptions compared to current law.

Chapter 476C Wind:

- Sufficient projects have been approved to utilize the existing 330 megawatt limit of Chapter 476C projects.
- If the existing limit is increased to 363 megawatts as proposed in the Bill, sufficient demand exists to utilize the higher limit and the additional 33 megawatts will come on line:
 - Year 1 = 20 megawatts
 - Year 2 = 10 megawatts
 - Year 3 = 3 megawatts
- The average capacity factor will equal 31.0%.
- Once earned, tax credits will be redeemed:
 - Initial year = 60.0%
 - Second year = 30.0%
 - Third year = 10.0%

Chapter 476C Nonwind:

- Sufficient demand exists to claim the additional 33 megawatts of nonwind Chapter 476C capacity and that capacity will come on line:
 - Year 1 = 5 megawatts
 - Year 2 = 15 megawatts
 - Year 3 = 13 megawatts
- The average capacity factor for all projects will equal 80.0%.
- Once earned, tax credits will be redeemed:
 - Initial year = 60.0%
 - Second year = 30.0%
 - Third year = 10.0%

Chapter 476C Nonwind Ethanol Plant Cogeneration:

- A single ethanol cogeneration facility will claim the 16 megawatts of reserved nonwind capacity and the project will file an application for approval prior to July 1, 2011. That project will become operational in calendar year 2013.
- The capacity factor for the project will equal 80.0%.
- Once earned, tax credits will be redeemed:
 - Initial year = 60.0%
 - Second year = 30.0%
 - Third year = 10.0%

Fiscal Impact

476B Limit Decrease: Decreasing the maximum capacity eligible for Chapter 476C credits will not have a fiscal impact to the State General Fund since tax credits associated with the reduced

megawatt limit will not be utilized under existing law. They will not be utilized because there is insufficient demand.

476C New Projects Impact: Increasing the maximum capacity eligible for Chapter 476C credits will have a fiscal impact since more tax credits will be issued and redeemed than under current law. The impact to the State General Fund may be partially offset by increased local property tax revenue, and potentially, decreased State School Aid appropriations.

Net State General Fund Revenue Reduction: The following table shows the projected net State General Fund revenue reduction associated with the changes in Chapter 476C. The impact across all fiscal years is estimated to be \$65.0 million.

Revenue Impact – Tax Credit Redemptions
82MW of New 476C Tax Credits
Dollars in millions

FY 2012	\$ 0.0	FY 2020	\$ 6.5
FY 2013	0.8	FY 2021	6.5
FY 2014	3.4	FY 2022	6.5
FY 2015	5.5	FY 2023	5.7
FY 2016	6.4	FY 2024	3.1
FY 2017	6.5	FY 2025	1.0
FY 2018	6.5	FY 2026	0.1
FY 2019	6.5	FY 2027	0.0
Total Fiscal Impact = \$65.0 million			

By category of additional tax credits, the \$65.0 million is distributed as follows:

- Additional wind generation = \$13.5 million
- Additional non-wind generation = \$34.7 million
- Ethanol cogeneration = \$16.8 million

Chapter 476C tax credits are not refundable, but they are fully transferable. The tax credits may be redeemed through several types of State tax returns, including individual income tax returns. Nonrefundable income tax credits redeemed through individual income tax returns negatively impact the Local Option Income Surtax for Schools. For every \$1.0 million of non-refundable tax credits redeemed through individual income tax returns, Local Option Income Surtax for Schools revenue is reduced by approximately \$30,000.

Sources

Legislative Services Agency Analysis
Iowa Utilities Board
Iowa Department of Revenue
Natural Resources Defense Council

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
